

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

#### MINUTES OF MEETING

Wednesday, August 17, 2011

The Board of Administration met on Wednesday, August 17, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:52 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Michael Bilbrey
Terry McGuire for John Chiang
Dan Dunmoyer
Richard Costigan
JJ Jelincic
Henry Jones
Steve Coony for Bill Lockyer
Priya Mathur
Louis F. Moret
Tony Oliveira
Howard Schwartz for Ronald Yank

Board of Administration Members excused: none

## AGENDA ITEM 3 - APPROVAL OF JUNE 2011 MEETING MINUTES

On **MOTION** by George Diehr, **SECONDED** by Henry Jones, and **CARRIED** that the June 15, 2011 Open Session minutes be approved as presented.

### AGENDA ITEM 4 – PRESIDENT'S REPORT

President Feckner introduced and welcomed CalPERS newest Board member, Michael Bilbrey, who was the successful candidate in the recent runoff election. Mr. Bilbrey is First Vice President of the California School Employees Association and Co-chair of Labor United for Universal Health Care.

President Feckner commented on the prior day's extensive review of the Board Governance project, to be reported on later in the meeting. He also announced the distribution of CalPERS service pins at the afternoon Board-sponsored ice cream social, and congratulated three employees in particular who have achieved 35 years of service: Terri McIntyre, Karen DeFrank and Jeralyn Barnette.

## AGENDA ITEM 5 - CHIEF EXECUTIVE OFFICER'S REPORT

Anne Stausboll reported on the recent activities:

- The California Employees' Retiree Benefit Trust (CERBT) increased the number of agencies in the program by almost 58 percent in the last year, and assets by 50 percent. The CERBT portfolio is now \$1.8 billion; the return for 2010-11 was 25 percent.
- CalPERS recently published a study on the impact that CalPERS pension payments have on the California economy. The study found that \$11.6 billion in retirement checks to over 430,000 CalPERS retirees in California, when spent, produced another \$14.5 billion of economic activity. The total economic impact of over \$26 billion supported 93,000 jobs with a total payroll of over \$5 billion.
- A second report recently published was a legal analysis of the vested rights of CalPERS members. It reaffirmed that pension benefits are a promise by the employer as compensation for services provided by the employee, and that the employee has a vested, contractual right to those benefits when they retire.
- The CalPERS Health Benefits Purchasing Review project is underway. A
  comparison of health care benefits showed that CalPERS provides its members
  better benefits than the private sector, and similar benefits to other public sector
  purchasers. The project will be developing strategies for both short- and longterm health benefits needs of CalPERS members and employers.
- The initial PSR project launch is scheduled for September 19, to be followed by a series of interim releases through January 12, 2012. Staff is prepared to process a substantial number of retirement and health transactions manually during that time, resulting in some temporary decline in service levels. As new releases come online, those service levels will increase.

Ms. Stausboll recognized the efforts of the Securities Lending Team, responsible for earning income from fees that are charged to others who borrow CalPERS own stocks and bonds. The team recently overcame historic obstacles to expand into the highly profitable Taiwan market, which is expected to bring revenue of \$4 million a year into the CalPERS portfolio.

### AGENDA ITEM 6 - CHIEF INVESTMENT OFFICER'S REPORT

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- As of June 30, 2011 the Total Fund was approximately \$237.5 billion.
- For the one year period ending June 30, 2011, the net rate of return was approximately 20.65%.
- Policy changes made based on lessons learned in the 2008 economic conditions have served the Fund well during recent market downturns.

## AGENDA ITEM 7 – INVESTMENT COMMITTEE

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, August 15, 2011.

Additional information may be found in the August 15, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for September 12, 2011 in Sacramento, California.

### AGENDA ITEM 8 -RISK MANAGEMENT COMMITTEE

The Committee did not meet in August.

### **AGENDA ITEM 9 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE**

George Diehr, Chair, presented the Benefits and Program Administration Committee Summary report to the Board. The Committee met on Tuesday, August 16, 2011.

Additional information may be found in the August 16, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED** with one nay vote by Howard Schwartz, the Board approved the following:

- Opposing AB 1320 (Allen) Taxpayer Adverse Risk Prevention (TARP) Accounts - unless amended to:
  - 1. Either eliminate separate TARP accounts within the Public Employees' Retirement Fund (PERF) or establish the TARP outside the PERF:
  - 2. Phase in application for employers already overfunded at time of enactment;
  - 3. Extend the Operative Date to July 1, 2014.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

• Adoption of the 2009/2010 State Employers' Industrial Disability Cost Report and providing instructions to file this report with the Governor and the Legislature.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- Adoption of the 2009/2010 State Employers' Industrial Disability Cost Report and providing instructions to file this report with the Governor and the Legislature.
- Asset Allocation Change for the Terminated Agency Pool
  - Adoption in concept of an investment policy and asset allocation strategy for assets of the Pool which more closely reflects the characteristics of future expected benefit payments of the Pool.
  - Approval of staff initiating the Rulemaking Process to adopt the proposed addition to Title 2 of the California Code of Regulations for crediting income to the Pool. The Proposed regulation language is attached as Attachment A to the Agenda materials.
  - Adoption of the revised Attachment B to the Agenda materials entitled "Method to Determine the Discount Rate, Inflation Assumption and Wage Growth Assumption for Termination Calculations," and directing staff to use the interim method to set the discount rate, inflation assumption and related economic assumptions as described in Attachment B for actuarial valuations of the Pool and when calculating the actuarial liabilities of a terminating (or partially terminating) public agency on or after August 18, 2011, until such time as the Board changes such interim method to set the discount rate, inflation assumption and/or related economic assumptions.
- Approval for publication, the proposed amendments, attached as Attachment C to the Agenda materials, to Title 2 of the California Code of Regulations sections 565.1, 565.2, 565.3 and the addition of section 565.5 to clarify requirements for submission of payroll and contribution information through the new my|CalPERS platform and to set forth the method for collecting interest and administrative costs.

The next meeting of the Benefits and Program Administration Committee is scheduled for October 18, 2011 in Sacramento, California.

#### AGENDA ITEM 10 – HEALTH BENEFITS COMMITTEE

Priya Mathur, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, August 16, 2011.

Additional information may be found in the August 16, 2011 Agenda materials and transcripts of the Committee meeting.

Patrick Johnson, President, California Association of Health Plans, was present to argue against CalPERS adoption of a support position if amended on AB 52 (Feuer).

On **MOTION** by Dan Dunmoyer, **SECONDED** by Priya Mathur and **CARRIED** by an electronic vote of 8 to 4, the Board approved the following:

 Adoption of a neutral position on AB 52 (Feuer) if amended, oppose if not amended. The bill should be amended to provide that the Board of Administration has the exclusive right to request the Department of Managed Health Care (DMHC) or California Department of Insurance (CDI) to review rates set by the Board of Administration. Any such review would be completed within 15 days and there would be no intervener or hearing process.

The next meeting of the Health Benefits Committee is scheduled for September 13, 2011 in Sacramento, California.

#### **AGENDA ITEM 11 – FINANCE COMMITTEE**

Henry Jones, Chair, presented the Finance Committee Summary report to the Board. The Committee met on Tuesday, August 16, 2011.

Additional information may be found in the August 16, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED** with one nay vote by Steve Cooney, the Board approved the following:

 Approval of the selection of Macias Gini & O'Connell, LLP, as the Board of Administration's independent financial statement auditor for the five-year term beginning with the Fiscal Year 2011-2012 and ending Fiscal Year 2015-2016. The total cost of the five-year contract will be \$3,649,346.

The next meeting of the Finance Committee is scheduled for September 13, 2011 in Sacramento, California.

### AGENDA ITEM 12 -BOARD GOVERNANCE COMMITTEE

George Diehr, Vice Chair, presented the Board Governance Committee Summary report to the Board. The Committee met on Tuesday, August 16, 2011.

Additional information may be found in the August 16, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- A. Principles for Effective Governance of Public Pension Funds
  - Adoption of the proposed Principles for Effective Public Pension Fund Governance
    - 1. Effective and Capable Fiduciaries
    - 2. Ethical Leaders
    - 3. Open and Accountable to our Stakeholders
    - 4. Risk Intelligent and Insightful in our Decisions
    - 5. Long-Term View for Needs of our Beneficiaries and System Participants
    - 6. Continuous Learning and Adaptation to Changing Conditions
  - Directing Funston Advisory Services to develop a context for the principles including definitions.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following policies:

- B. Role of the Board and Committees
  - Each Board member signs a statement acknowledging fiduciary responsibilities in conjunction with fiduciary training and self-assessment processes.
  - An annual "state of the union" report by the President.
  - Use an independent third party to assess the Board's performance once every two years.
  - Develop a long-term CEO succession plan.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- C. Role of the President/Vice President/Chairs/Vice Chairs
  - Confirm the role of the President as defined in the existing CalPERS Statement of Governance Principles.
  - Confirm the role of the Vice President as defined in the existing CalPERS Statement of Governance Principles.
  - Confirm the role of the committee chairs and vice chairs as defined in the existing CalPERS Statement of Governance Principles.

- Evaluate policies and processes related to the Board travel to promote improved compliance, controls and value received.
- Evaluate the best means to improve the Board committee briefing process.
- Develop a framework to hold all executives accountable for performance linked to the agreed organization strategy, performance metrics and compensation system.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following as a First Reading:

### D. Powers Reserved for the Board

- The Committee will further discuss and clarify definitions of powers reserved for the Board.
- Schedule meetings with committee chairs and vice chairs and the responsible executives to discuss and refine the powers reserved definitions by topic over the next two weeks, and bring back a revised document with further definition and streamlining.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following as a First Reading:

### E. Board Committee Structure

- Ensure the process for nominating and electing committee chairs and vice chairs is transparent and well understood.
- Adopt a policy to review and update committee charters annually.
- Move governance items out of BPAC into the Governance Committee and move administrative items out of BPAC and into Finance (renamed Finance and Administration Committee).
- Reduce the number of committees by consolidating Health and the remaining elements of BPAC into the Pension and Health Benefit Programs & Policy Committee.
- Reconfigure Finance and Risk Management to improve independent reassurance by consolidating all reassurance activities into a revised Risk and Audit Committee.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following policies:

- F. Delegations to Executives and Board Reporting Relationships
  - The Board will evaluate direct report performance and compensation based on the agreed-upon strategy, performance outcomes and metrics, not just activities.
  - If the Board is not satisfied with the performance of its direct report(s), it will
    discipline or replace the executive(s) but should not get involved in day-to-day
    operations.
  - The direct report(s) are responsible for providing reasonable assurance to the Board that there are capable people, processes and systems in place to achieve agreed-upon outcomes while managing related risks so that they are within CalPERS established risk appetite.
  - The Board will have ready access to all executives, such access to be coordinated by the CEO.
  - The Board direct report(s) have the primary authority and responsibility for the hiring, evaluation, compensation and termination of their direct reports.
  - The Chief Investment Officer retains investment autonomy and decision authority over hiring, evaluation, compensation and firing of Investment Office personnel.
  - Executives (to the level of senior portfolio managers) are required to certify in writing at least annually that they have been free from undue influence by any individual Board member, executive or third party.
  - The Board and/or its committees will establish a schedule of closed session meetings with selected executives i.e., making frequent reports to the Board or significant investment decisions.

On **MOTION** by JJ Jelincic, **SECONDED** by Henry Jones and **CARRIED** by electronic vote of 7 to 5, the Board approved the following policy:

- F. Delegations to Executives and Board Reporting Relationships
  - Adopt a dual direct reporting structure for the organization with the CEO and the Chief Investment Officer as direct reports to the Board.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following as a First Reading:

G. Setting the Board Agenda and Improving Reporting to the Board

# Setting the Board Agenda

- The setting of the Board agenda is tied directly to the annual planning calendar.
- The Board agenda is tied directly to the Board's approval and oversight responsibilities and related outcomes.
- The President and CEO, in consultation with the Committee Chairs, actively
  engage the Board in setting the strategic agenda and review and adjust
  quarterly.
- The CEO engages the Board in collaboratively developing the strategy.
- The Board develops and adopts a uniform framework requiring preparation of executive summaries to provide a greater insight, replacing the existing board agenda setting process.

## Reports and Meeting Protocols

- The Board and each committee will review all current information reports to determine those which are statutorily required and those which may be streamlined or removed.
- The Board will define its information requirements, the thresholds that trigger Board attention for each topic, and the frequency for standard reports.
- The CEO is responsible for keeping the Board appropriately informed and escalating issues on a timely basis.
- The Board will make use of consent agendas.
- The President and CEO are responsible for managing the effective and efficient flow of information to the Board without being overly detailed.
- The CEO will assign a specific senior executive to coordinate with each committee and collaboratively develop the annual agenda proposals, and the effective and efficient flow of pertinent information is a compensable performance goal for the responsible executive.
- Each committee maintains a standing set of questions pertinent to recurring decisions or oversight.

- Adopt a policy whereby committee chairs are responsible for receiving and prioritizing (based upon established policies) ad hoc requests for new reports/analyses, taking into account the effect on staff time and resources required to produce such reports/analyses.
- A sunset review of new reports will be conducted at appropriate intervals to determine their continuing utility.
- A Board portal will be implemented to facilitate effective decision making and use of Board member time.

The Open Session of the Board of Administration recessed at 11:45 a.m. and reconvened at 12:00 p.m.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

### H. Board Self-Assessment Process

- Develop and implement a new self-assessment process which assesses the whole Board, the President and Vice President, individual members, committees, and committee chairs and vice chairs, and includes multiple bases for evaluation:
  - o Principles:
  - Responsibility and Authority;
  - Process;
  - Outcomes.
- Utilize one or more techniques for obtaining self-assessment feedback:
  - Expert third party facilitator to lead or co-lead (with the Board President) the self-assessment process.
  - o Get feedback from external key stakeholders on Board performance.
  - Obtain an independent third party evaluation of the Board's performance.
  - o Include peer-to-peer (360°) and upward evaluations from staff.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- I. Board Self-Development Process
  - Establish an annual continuing education plan and budget.
  - Obtain leadership education for all board members on the role of the Board vis-à-vis management and the role of the chairs and vice chairs in the effective management of Board and staff time.

- Develop a profile of the skills and attributes desired for the Board overall and for each committee chair and member, and arrange for board development programs consistent with the desired attributes and skills.
- Tie certain Board self-development activities directly to topics contained in the decision-making agenda.
- Build an educational element into each Board meeting, or if not each meeting, in a regular cadence.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

 Further discuss public reporting of the annual development activities completed by each member.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- J. Selected Policies Governing Board Conduct
  - For matters which legitimately should be kept confidential (personnel matters, contract negotiations, sensitive investment information), adopt a confidentiality policy which:
    - o Provides for disciplinary action if violated.
    - o Applies to board members, staff, and external service providers.
    - Prohibits use of confidential information for personal gain or for the benefit of outside interests.

The next meeting of the Board Governance Committee is scheduled for September 13, 2011 in Sacramento, California.

### **AGENDA ITEM 13 – PERFORMANCE AND COMPENSATION COMMITTEE**

The Committee did not meet in August.

### **AGENDA ITEM 14 – EXTERNAL AFFAIRS UPDATE**

Robert Glazier, Director, External Affairs, provided an update on External Affairs and reported on the following:

- On August 4<sup>th</sup>, the Public Affairs office and the Health Account Services Division hosted the webinar entitled "Health Plan Design Rate and Benefit Changes." Almost 600 employer representatives participated.
- CalPERS Stakeholder Relations Office has had responsibility for Public Records Act (PRA) requests since April. Since that time, they have added web-based tools to make it easier to submit PRA requests and are in the process of posting

the requests on the CalPERS website. Monthly volume has nearly doubled from 2010 to an average of 30 PRA requests per month. Recently over 65 CalPERS staff and six regional offices participated in a PRA training session held in partnership with CalAware, the nonprofit California watchdog group that focuses on government transparency.

The following agenda item was moved up to take place before Agenda Item 15.

# AGENDA ITEM 18 - PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE

Karen Ruiz, PSR Project Manager, presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- Readiness Checkpoint 3 of the Project was completed on August 2<sup>nd</sup>. The Business Owners Committee and the Steering Committee unanimously recommended to continue moving forward with the September 19<sup>th</sup> launch.
- The Project continues to face challenges in customer acceptance testing, with as many as 200 customer acceptance testing scripts that will not be fully validated by launch.
- Death benefits processing is expected to have the most impact on the organization and members from a workaround perspective, followed by service credit purchasing and disability. Changes in the system are expected to lessen the impact of service credit purchases and disability.
- The Project continues to update its external communication strategy to keep stakeholders involved.
- Data validation continues to incrementally improve. Production simulation continues to show good results in benefit payments, health enrollments, and retiree enrollments.

John Nichols, Project Manager, Accenture, reported on the progress of the project from Accenture's perspective.

 Over the next few weeks the focus will be on mobilizing the rapid response teams that will help respond quickly to CalPERS users' most urgent needs.

Chris Jasper, KPMG, Independent Project Oversight (IPOC), does not concur with the conditions stated in the PSR report, and expressed concern about the number of areas in need of continued corrective action in order to meet the needed thresholds to ensure a successful launch.

The IPOC team considers the data management condition to still be red, as there
are a number of data requirements that have not yet met their conversion
accuracy thresholds.

- Internal implementation readiness is still a point of concern, as the ETM team still
  has a large number of workarounds, procedures and guides that they need to
  document to mitigate the deferred application functionality.
- Customer acceptance test results to date indicate that only 66 percent of the critical scripts have fully passed, although it is encouraging that 77 percent of the individual steps within those scripts have been executed.
- The IPOC team is encouraged by recent production simulation exercises that demonstrate that many of the foundational services of the new system are working acceptably.
- The IPOC team continues to caution the need for thoughtful planning to minimize resource conflicts and overload.

# AGENDA ITEM 15 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following.

- AB 782 (Brownley) has been signed by the Governor.
- SB 350 (Negrete McLeod) is now on the Governor's desk.

# AGENDA ITEM 16 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Liaison provided updates on federal legislation and reported on the following:

- The Special Debt Super Committee is expected to focus on three areas that may impact CalPERS:
  - Broad based tax reform could affect current tax deferrals in place for retirement savings vehicles.
  - Potential changes to Social Security may affect general benefits levels and also potentially expand to include new state and local workers.
  - Some opportunities may be available to put additional health cost containment provisions into the debt reduction bill. CalPERS will also be watching for any cost shifting to large purchasers of health care.

### **AGENDA ITEM 17 – PUBLIC AFFAIRS UPDATE**

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs and presented the Strategic Communications Report.

## AGENDA ITEM 19 - DRAFT AGENDA FOR September 14, 2011 MEETING

- Michael Bilbrey will be added to the Committee rosters as appropriate.
- Performance and compensation evaluations will be added to the September meeting.

#### **AGENDA ITEM 20 – BOARD MEETING CALENDAR**

No changes were made to the Calendar.

#### AGENDA ITEM 21 - BOARD TRAVEL APPROVALS

On **MOTION** by JJ Jelincic, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved the Board travel.

#### AGENDA ITEM 22 – GENERAL COUNSEL'S REPORT

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

### **AGENDA ITEM 23 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES**

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 23A through 23M.

On **MOTION** by Priya Mathur, **SECONDED** by George Diehr and **CARRIED**, the Board approved accepting proposed decisions of Administrative Law Judges for 23B through 23M.

Mr. Chiraq Shaw, Shaw and Associates, was on hand to answer Board questions concerning staff's recommendation to partially adopt the proposed decision for 23A, striking any reference to creating a fictitious retirement date. Mr. Shaw recommended a full board hearing on the matter.

On **MOTION** by Priya Mathur, **SECONDED** by George Diehr and **CARRIED**, the Board approved taking up 23A in a full board hearing.

## **AGENDA ITEM 24 - PETITION FOR RECONSIDERATION**

On **MOTION** by George Diehr, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved accepting staff's recommendation to deny the Petitions for Reconsideration by Paul Bado and James E. Glaser.

## **AGENDA ITEM 25 - PUBLIC COMMENT**

No public comment.

# AGENDA ITEM 26 – ANNUAL EMPLOYEE PERFORMANCE REVIEW AND UPDATES

This agenda item has been moved to September.

There being nothing further to come before the Board of Administration, the meeting adjourned at 12:43 p.m.

The next Board of Administration meeting is scheduled for September 14, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer